

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

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POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

TRIAL BRIEF OF THE
AMERICAN PUBLIC POWER ASSOCIATION

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I. STATEMENT OF POSITION

The American Public Power Association (APPA) opposes all of the proposed increases in card rates, and requests reductions in all card rates (single-piece, Basic presort, and all Automation categories). APPA is the national service organization for the nation's more than 2,000 municipal and other State and local government-owned electric utilities. (APPA-T-1, p.1) APPA members are not-for-profit entities owned by the citizens of the communities which they serve. Their objective is to provide secure electric service to their owners and customers at the lowest possible cost. Many county, city, and town governments provide electricity, gas, water, and sewage services to their residents, and many use cards to bill customers for those services. Some small businesses also use cards for billing purposes. There is a broad array of governmental and commercial entities which try to provide basic services to the public at the lowest possible cost. These public service and commercial entities will be severely impacted by the proposed increases in card rates. The USPS should be directed to make available a very low cost postal service for government agencies and small businesses to bill customers for essential services rendered.

Card billers have already suffered major recent increases in their postal costs, as a result of the reclassification in Docket MC95-1; and the USPS proposes, in this case, to impose a second round of increases which will adversely impact the customers who receive electricity, gas, water and sewer services from municipally owned service providers, and other small businesses.

The eligibility conditions for Automated cards impose obstacles to automation which have prevented many of the mailers, which use cards for billing, from having access to the Automated rate categories. (See Exhibit APPA-T-1, p. 2). Automation eligibility conditions, combined with abolition of the 3 and 5-digit and carrier presort rate categories, resulted in a very substantial, and unanticipated, postal rate increase in 1996 for most card billers. Government agencies providing electricity, water and sewer services, serve all users in a market area, and have a very high density for their billing mail. Most of them were able to use the carrier route presort rate of 16 cents, prior to reclassification. As a result of reclassification's elimination of the carrier presort rate category, and the imposition of conditions which effectively bar many card bills from eligibility for automation categories, many of the users of cards for billing experienced a dramatic rate increase in 1996 - 12.5% - from the carrier presort rate of 16 cents, to the Basic Presort rate of 18.0 cents. (APPA-T-1, p.3) The USPS is now requesting an unjustified 19 cent rate for Basic Presort.

The national public interest requires that the rates for the basic postal services to the general public be established at the lowest possible levels. The present single-piece rate of 20 cents for cards is out of line with the historical relationships, and excessive by the statutory standards established by the Postal Reorganization Act. The present Basic Presort rate of 18 cents is also excessive by those statutory standards. The Commission should reject the proposed increase in the single-piece card rate, and the

second increase in the presorted card rate. All of the existing card rates are excessive and should be reduced, not increased.

II. RATE HISTORY RESTORE THE POSTCARD/LETTER RELATIONSHIP

Throughout most of our nation's history, the Federal government provided post cards as the lowest cost means of public communication. The long standing, traditional, "penny post card", in effect for about 65 years, from 1886 until 1918 and from 1920 to 1952, was only one-half or one-third of the letter rate. A complete history of the post card rate, and the single-piece letter rate, is displayed on Exhibit APPA-T-1, p. 5.

Since the Postal Service became "self sustaining", the basis for increases in postal rates has been inflation. The Postal Service is a very labor intensive service industry. Its contracts with the postal unions require annual cost of living adjustments, and the salaries of supervisory employees are also adjusted annually to reflect COLA. Those increases in labor costs, offset by any increases in productivity, must be passed on through increases in postal rates. But the proper policy to recover the cost of inflation is an across-the-board percentage increase in all rate classes and categories, similar to that implemented in R94-1, not the very discriminatory increases implemented in R90-1, where the Commission approved a 27% increase in post cards and a 15% increase in First Class letters. See APPA-T-1, p. 7.

The one cent increase proposed in this case for cards compounds the inequitable base established in R90-1 and earlier actions, and it should be rejected. An 18 cent card rate would

restore the historical relationship and provide the public with an inexpensive means of communication.

III. THE RATE MAKING CRITERIA SUPPORT A DECREASE IN CARD RATES

Section 3622 (b) of the Postal Reorganization Act establishes the criteria which the Commission must address in evaluating postal rate levels. An examination of the relative values and costs of letters and cards demonstrates that the present 20 cent card rate is excessive by the statutory criteria, and that rate should be reduced, not increased.

1. **Privacy** - The primary difference in value between First-class Letters and Standard Letters is that First-class letters are private and sealed against inspection. But a card, like Standard mail, is open to public view; a card provides no possibility of private communication. Privacy has value in the economic world, and the card has no privacy value.

2. **Communication Quantity** - The quantity of information that can be conveyed by a one ounce (4 double-sided pages) letter is from 6 to 24 times as much as information that can be written on a card. A means of communication which has from 4 to 17 percent of the capacity of a letter should not have a postal rate that is 60+ percent of the letter rate.

3. **Demand Price Elasticity** - One of the most significant quantitative measures of value of service used in establishing cost markups and coverage is the price elasticity of demand. (USPS-T-30, p. 4) As witness O'Hara has testified, the lower the own-price elasticity, the higher is the value of the service provided. The

"Long-run Own-Price Demand Elasticities", as reported by witness O'Hara (USPS-T-30 p.5) are as follows:

First-class letters	-0.232
Private cards	-0.944

Private cards (those not printed by the USPS) are 4 times as price elastic as First-Class letters; that indicates that the service provided for cards is in the range of one-fourth of the letter value. The dramatic difference in demand price elasticity clearly requires a far lower cost coverage for cards than for letters. USPS regularly uses "Ramsey Pricing" as a methodology for designing rate mark-ups from variable costs. The testimony of OCA Witness Roger Sherman demonstrates that the total revenue per piece that would be generated by the proposed card rates (19.72 cents) far exceeds (by almost 6 cents per piece) the highest permissible revenue under Ramsey pricing (13.97 cents). See OCA-T-300, p. 21. That testimony also demonstrates that, with the proposed card rates, the average "Welfare Loss" per dollar of contribution for cards, 0.28, would exceed the Welfare Loss for very other subclass except for Express mail. (Id. p. 35).

These aspects of "value" - privacy/lack of privacy, quantity of communication, tremendous differences in demand price elasticity and totally out of line Ramsey pricing impacts - demonstrate that a card does not have 60+% of the value of a letter. Increases in the rates for cards are totally unjustified. The present 20 cent single-piece rate for cards is quite excessive, by every statutory standard, as compared with the proposed 33 cent Single piece First-class letter rate. Consequently, the proposed increase in the

single-piece card rate should be rejected; an 18 cent card rate, and a 33 cent letter rate, would be far more consistent with the historical relationship and with statutory standards.

IV. WORKSHARING CARD RATES ARE EXCESSIVE

In the case of "worksharing" cards (the aggregate of presorted and automated cards) the projected cost coverage is 267.11%. (Exhibit USPS-30B, p. 43). That is a cost coverage only slightly below the 282.29% cost coverage for worksharing letters, and far above any other category of service (other than "mailgrams"). A cost coverage of 267.11% for worksharing cards is unjustified.

The estimated total Unit Cost of Single Piece cards is 11.2429 cents, and Presort cards is 7.7568 cents. (USPS-T-29C, p. 1) The USPS proposes a 21 cents single-piece card rate, which would provide a 9.75 cent contribution to system costs, and a 19 cents Basic Presort rate, producing a unit contribution to system costs of 11.24 cents. If one fact is absolutely clear, it is that presorted mail imposes far less cost burden on the postal system than single-piece mail, and that the unit per-piece contribution to system costs by a presorted piece should not exceed the unit contribution of comparable single piece mail.

For years, there has been a significant theoretical split between the Postal Service and the Commission as to what benchmark to use for calculating "worksharing discounts" for presorted First Class mail. The Postal Service has advanced a totally hypothetical and unacceptable "cost avoidance" methodology that ignores actual recorded cost differences. The Commission has consistently rejected that "cost avoidance" methodology, and developed its

"Appendix F" "cost difference" methodology. But the Commission's "cost difference" methodology also excludes from consideration many significant and substantial recorded cost differences between mail prepared by mailers to meet presort and automation conditions, and mail delivered into the postal system by the general public.

Regardless of the very complex, so-called "cost analyses", everyone familiar with the operations of the postal system knows that bulk, presorted mail imposes far less cost burdens on postal System operations than single-piece mail. Postal carriers must pick up general public mail from mail drops, mail boxes, and the front desks of businesses. Those bags and boxes of single-piece mail must be carried by trucks to originating post offices, where mail is dumped on culling racks; pieces that can't go through the facer/cancellers are pulled out of the stream, and the remaining pieces go through facer/cancellers, and must be carried to the outgoing sorting operations where they are sorted to destination sectional centers. (See Exh. MMA-T-1, pp. 17-18) All of those requirements - to collect and process non-work-sharing mail - impose major cost burdens on the postal system - labor time by carriers and in-office workers, investments in, and repair, maintenance, and replacement of, trucks, mail boxes, buildings and equipment.

Mail presorted to destination post offices, and delivered in trays to loading docks, makes no use of the retail postal system for the purchase and sale of stamps, and bypasses almost all of the collection and out-going mail processing operations. Leaving aside the complex "cost avoidance/cost difference" techniques, **fairness**

dictates that the unit per-piece contribution to "system" costs by presorted cards should not exceed the unit per-piece contribution by Single-piece cards. The unit contributions proposed by the USPS are totally out of line. An 18 cent single-piece card rate would make a unit contribution to system costs of 6.76 cents; a 14.5 cent Basic Presort card rate would make a similar unit contribution (6.74) even though a presorted card provides far less burden on the system than the single piece card. As a "transition", the Basic Presort rate could be set at 15 cents, representing a work-sharing "discount" of 3 cents, which makes a small subsidy to the single piece rate. Witnesses Richard Bentley (MMA-T-1) and James Clifton (ABA/EEI/NAPM-1) have analyzed cost differences between single-piece and presorted mail, and their exhibits clearly support a 3 cent differential ("discount") for worksharing cards.

V. REVENUE IMPACTS OF CARD RATE REDUCTIONS
WILL BE MINIMAL

The projected Before-Rate-increase Total Cards revenue for Fiscal 1998 is \$1,059,843,000 (Exh. USPS-30A) and the After-Rates total revenue is \$1,088,979,000 (Exh. USPS-30B), an increase in revenue of only \$29,136,000. A one cent reduction in the card rate would result in a maximum loss of revenue of at most \$29 million, amounting to a revenue reduction of about 1.3%. With the high own price elasticity, a reduction in card rates could increase volumes, resulting in little or no revenue loss. In the context of the significant profits reported by the Postal Service for the last three fiscal years, a 2 cent card rate reduction, generating at most a 2.6% reduction in revenues, would be inconsequential.

The benefits to the public of an across-the-board reduction in all card rates would be very substantial.

VI. PRESENT AUTOMATION CONDITIONS ARE BURDENSOME

The standard card used for billing customers for services rendered has an address stub that is too narrow to contain the complete 11 digit barcode required for eligibility for automation rate categories. (See Exhibit APPA-1, p. 1) Many users of cards for billing and other business purposes have not been able to qualify their cards for automation rates. Cards presorted to 3 or 5-digits or to carrier routes, do not go through the first rounds of automation processing at the originating sectional centers that send mail to 3 and 5-digit destinations. At the destination centers, where mail is sorted by automation equipment to carriers and to walk sequences, the first five digits of the automation code are irrelevant. Therefore, cards delivered to destination offices should be eligible for 5-digit and carrier sorted automation rates with only the last 6 digits of barcodes in the address. An alternative, possibly a 4.25" x 7" card, should also be explored.

VIII. SUMMARY

A. Single-Piece Card Rate - APPA's recommended 18 cent single-piece card rate would be 54.5% of a 33 cent letter rate, consistent with the long standing letter/card historical relationship. Such a rate relationship would be more consistent with the statutory standards, considering that cards have zero privacy, very limited communication capacity, 8.5% weight, and 4 times the price elasticity of letters:

Comparison of Letters and Cards At APPA Recommended Rates			
<u>Criteria</u>	<u>Letter</u>	<u>Card</u>	<u>Card/Letter Ratio</u>
Rate	33 cents	18 cents	54.5%
Privacy	Sealed	Open	Zero
Communication	8 pages	1/3 page	5%
Weight	1 oz.	1/12 oz.	8.5%
Elasticity	-0.232	-0.944	400 %

B. Basic Presort - APPA's recommended rate of 15 cents is far more consistent with the rate making criteria than the USPS proposed 19 cents:

Comparison of Mark-Ups of Cards At USPS Proposed and APPA Recommended Rates				
<u>Criteria</u>	<u>USPS</u>		<u>APPA</u>	
	<u>Single-piece</u>	<u>Presort</u>	<u>Single-piece</u>	<u>Presort</u>
Rate	21	19	18	15
Unit cost	11.243	7.757	11.243	7.757
Unit contribution	9.757	11.243	6.757	7.243

A Basic Presort rate of 15 cents would have a mark-up of total unit costs (7.7568 cents) of almost 100%. An 18 cent single-piece card rate would make a unit contribution to system costs of 6.8 cents; a 15 cent Basic Presort card rate would make a unit contribution of 7.2 cents, slightly higher than the single-piece unit contribution, even though a presorted card imposes far less burden on the System than the single-piece card. The present two cent "discount" for basic presorted cards is punitive and fails to provide the rate differential required by the statutory standards. The Basic Presort "discount" should be increased to 3 cents.

C. Automation Eligibility - Although APPA has not made any broad scale analysis of the impact of automation conditions upon the use of cards for billing purposes, it is their perception that the problems of qualifying for automation have driven some card

users to envelope use, and many of those which have continued to use cards have experienced significant increases in their postal costs. It would be in the public interest if the USPS would consider some modification of the Automation conditions for cards presorted to 5-digits and carrier routes, and delivered to a destination 3 or 5 digit postoffice, in order to allow those presorted cards to qualify for automation rate categories, without the full 11 digit barcode. It might also be useful to consider the ramifications of an enlargement of permissible cards to 7 inches.

Respectfully submitted,

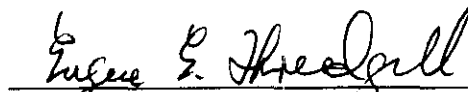
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CERTIFICATE OF SERVICE

I, Eugene E. Threadgill, counsel for the American Public Power Association, hereby certify that, this 10th day of February, 1998, six copies of the foregoing document have been served upon the United States Postal Service, and a copy has been served upon all parties on the Secretary's list of intervenors in this proceeding, in accordance with Section 12 of the Rules of Practice.


Eugene E. Threadgill